

Message Text

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PAGE 01 STATE 199089 TOSEC 090027
ORIGIN NODS-00

INFO OCT-01 ISO-00 /001 R

66011

DRAFTED BY S/S:LFEISCHER

APPROVED BY S/S:LFEISCHER

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TO USDEL SECRETARY IMMEDIATE

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S E C R E T STATE 199089 TOSEC 090027

NODIS

WHITE HOUSE FOR DR BRZEZINSKI

FOLLOWING REPEAT CARIO 13860 ACTION STATE AUG 21.

QUOTE S E C R E T CAIRO 13860

NODIS

FOR THE SECRETARY FROM AMBASSADOR

E.O. 11652: GDS

TAGS: ETRD, EG, UR, CZ

SUBJECT: MEETING WITH SADAT

SUMMARY: SADAT RECOUNTS HIS CURRENT CONTRETEMPS WITH
SOVIET, WHICH PROMPTED HIM STOP EXPORT OF THIRTY
THOUSAND TONS OF LONG-STAPLE EGYPTIAN COTTON TO USSR
AND A SMALLER AMOUNT TO CZECHOSLOVAKIA. HE EXPECTS
SOVIETS WILL RETAILIATE BY CURTAILING THEIR RAW MATERIAL
AND INTERMEDIATE GOODS TRANSFERS TO EGYPT UNDER BILATERAL
ARRANGEMENT. HE IS, NEVERTHELESS, DETERMINED PROCEED

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AND SPEAKS OF WANTING TO RID HIMSELF OF ANY DEPENDENCE
ON SOVIETS AND EASTERN BLOC. HE WISHES ALERT PRESIDENT
CARTER TO NEED FOR POSSIBLE HELP IN (A) FINDING WESTERN
HARD CURRENCY MARKETS FOR THE THIRTY THOUSAND TONS OF
EGYPTIAN COTTON WHICH WOULD NORMALLY HAVE GONE TO USSR;
(B) FINDING ALTERNATIVE SOURCE(S) FOR RAW MATERIALS
(ESPECIALLY COKING COAL) AND INTERMEDIATE GOODS

NORMALLY OBTAINED FROM USSR AND EASTERN BLOC; (C) ENCOURAGING JAPANESE AND/OR ITALIANS TAKE OVER TECHNICAL ASSISTANCE FUNCTIONS NOW BEING RENDERED BY SOVIET ADVISERS AT HELWAN STEEL PLANT AND ALEXANDRIA SHIPYARD. I TOLD SADAT DECISION RE SOVIETS IN ONE WHICH ONLY HE CAN TAKE, BUT MATTER WOULD SEEM TO BE ONE REQUIRING CAREFUL STUDY BEFORE ANY IRREVOCABLE ACTION IS TAKEN. NOTED US IS ALSO COTTON PRODUCER AND EXPORTER, WHICH MAY MAKE IT DIFFICULT TO HELP ON COTTON ISSUE. WE WOULD, OF COURSE, WANT TO STUDY RAW MATERIALS/INTERMEDIATE GOODS REQUIREMENTS LIST, ONCE AVAILABLE, IN ORDER DETERMINE HOW WE MIGHT HELP. SADAT'S CONCEPT SEEMS TO BE TO UTILIZE HARD CURRENCY EARNINGS FOR EGYPTIAN COTTON DIVERTED TO EUROPEAN MARKETS IN ORDER TO PURCHASE NEEDED RAW MATERIALS AND INTER-MEDIATE GOODS. NO IMMEDIATE ACTION REQUIRED, SINCE SADAT SAID HE WISHED MERELY TO ALERT US TO POSSIBLE PROBLEM. HOWEVER, WE MAY EXPECT HEAR MORE ABOUT MATTER. END SUMMARY.

1. MET WITH SADAT EARLY AFTERNOON AUGUST 20, IN ALEXANDRIA. WITH HIM WAS VP MUBARAK. THEY HAD JUST COME FROM WELCOMING VISITING SUDANESE PRESIDENT NUMAYRI.

2. SADAT EXPLAINED THAT HE HAD ASKED ME TO COME TO ALEXANDRIA IN ORDER TO ALERT (HE CALLED IT "EARLY WARNING") PRESIDENT CARTER TO SOME LIKELY DEVELOPMENTS
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WHICH MIGHT REQUIRE OUR ASSISTANCE. BY WAY OF INTRODUCTION HE GAVE A LONG ACCOUNT OF HIS CURRENT CONTRETEMPS WITH THE SOVIETS. SOVIETS, HE RECALLED, NORMALLY TAKE 30,000 TONS OF LONG-STAPLE COTTON EACH YEAR. EGYPT IMPORTS FROM USSR CONSIST MAINLY OF VARIOUS RAW MATERIALS AND INTERMEDIATE GOODS. BALANC OF TRADE HAS REGULARLY BEEN IN SOVIET FAVOR AND HAS REPRESENTED PAYMENT IN KIND FOR EGYPTIAN COMMERCIAL DEBT.

3. "FEW YEARS" AGO GOE ORDERED 220 TANKS FROM CZECHOSLOVAKIA, PAYING FOR THESE IN INSTALLMENTS OF HARD CURRENCY. ENTIRE COST HAD BEEN PAID. TANKS SHOULD HAVE BEEN DELIVERED YEAR AND HALF AGO. WHEN THEY WERE NOT, GOE GOT IN TOUCH WITH CZECH GOVT, WHICH INDICATED SOVIETS HAD ORDERED IT NOT TO PROVIDE TANKS. CZECHS SUGGESTED GOE TALK TO SOVIETS ABOUT MATTER. FAHMY THEREUPON RAISED SUBJECT WITH GROMYKO IN MOSCOW, BUT SOVIET FONMIN DISCLAIMED ANY KNOWLEDGE. HE, SADAT, HAD THEN WARNED CZECHS THAT ACTION WOULD BE TAKEN AGAINST THEM IF TANKS NOT DELIVERED. IN FACE OF WARNING, CZECHS HAD PROVIDED THIRTY TANKS, BUT INSISTED THAT NO FURTHER TANK DELIVERIES POSSIBLE UNTIL NEXT YEAR. CZECH ACTION, SADAT IS CONVINCED, IS DUE TO SOVIET PRESSURE. HE, SADAT, IS

NOT PREPARED TO ACCEPT THIS. HENCE, HE HAD ORDERED THAT ALL COTTON EXPORTS TO SOVIET UNION AND TO CZECHOSLOVAKIA BE STOPPED.

4. IMPACT OF THIS ACTION WAS MORE THAN HE EXPECTED. SOVIETS KNOWN TO BE UPSET. TWO DAYS AGO SOVIET EMBASSY COMMERCIAL ATTACHE GAVE MINSUPPLY A MEMORANDUM CAUTIONING THAT IF COTTON EXPORTS ARE INDEED STOPPED, SITUATION WILL BE DANGEROUS. SADAT DETERMINED NOT TO BOW TO SOVIET PRESSURE, BUT BELIEVES SOVIETS AND BLOC COUNTRIES WILL ESCALATE SITUATION BY CURTAILING THEIR EXPORTS TO EGYPT.

5. THE PRESIDENT SAID HE HAD MADE A DECISION THAT EGYPT
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MUST GET RID OF REMAINING SOVIET ADVISORS. IT COULD NOT AFFORD TO REMAIN DEPENDENT UPON SOVIETS IN ANY WAY. SADAT WANTED PRESIDENT CARTER TO KNOW THIS AND WISHED TO ALERT HIM TO THE POSSIBLE NEED FOR ASSISTANCE IN THREE AREAS IN THE EVENT THE SOVIETS RETALIATE:

(A) FIRST, GOE INTENDS TO SELL THE 30,000 TONS OF LONG-STAPLE COTTON IN WESTERN HARD CURRENCY MARKETS. HE WONDERED IF USG MIGHT BE ABLE TO HELP IN THIS REGARD.

(B) IN EXPECTATION THAT SOVIETS AND EASTERN BLOC COUNTRIES WILL CURTAIL RAW MATERIAL DELIVERIES, GOE MUST PLAN TO OBTAIN NEEDED RAW MATERIALS ELSEWHERE. THERE WOULD PROBABLY ALSO BE OTHER RAW MATERIALS NOW OBTAINED FROM SOVIETS AND EASTERN BLOC, HIGH LEVEL COMMISSION, HEADED BY THE VP, IS STUDYING THE MATTER TO DETERMINE REQUIREMENTS. EITHER THE VP OR THE PRIMIN WOULD LET ME KNOW RESULTS OF THAT STUDY. HE HOPED WE MIGHT BE ABLE TO HELP FIND ALTERNATIVE SOURCES OF RAW MATERIALS AND INTERMEDIATE GOODS. COKING COAL ESPECIALLY IMPORTANT. GOE NOW GETTING MOST OF ITS COKING COAL FROM POLAND.

(C) AS PART OF HIS DECISION, SADAT SAID, HE HAD ORDERED VP MUBARAK ALSO TO GET RID OF REMAINING SOVIET ADVISORS IN HELWAN STEEL MILL AND ALEXANDRIA SHIPYARD. HE WILL ASK JAPANESE OR, IF THEY ARE NOT INTERESTED, ITALIANS TO TAKE OVER TECHNICAL ADVISORY FUNCTIONS AT THESE FACILITIES. HE WONDERED IF WE MIGHT BE ABLE TO HELP IN URGING JAPANESE AND/OR ITALIANS TO BE WILLING TO ASSIST GOE IN THIS MATTER.

6. I TOLD SADAT THAT I WOULD REPORT HIS REQUEST. AS I UNDERSTOOD IT, HE WAS AT THIS TIME SIMPLY ALERTING US TO THE POSSIBILITY THAT SOME HELP MIGHT BE NEEDED.
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DECISION WITH RESPECT TO THE SOVIETS WAS ONE WHICH ONLY HE COULD TAKE, BUT IT SEEMED TO ME THAT MATTER SHOULD BE CAREFULLY WEIGHED AND STUDIED BEFORE ANY DEFINITIVE ACTIONS ARE TAKEN. FOR EXAMPLE, HAD ANY EFFORT BEEN MADE TO LOOK INTO THE WESTERN COTTON MARKET? AS A MAJOR COTTON GROWER AND EXPORTER, CHANCES OF EGYPTIAN COTTON BEING DIVERTED TO US MARKET DID NOT STRIKE ME AS GOOD. SADAT SAID HE UNDERSTOOD US SITUATION AND SUGGESTED COTTON COULD GO TO WESTERN EUROPE AND JAPAN. COULD WE PERHAPS PROVIDE SOME LEADS AS TO COUNTRIES WHERE ADDITIONAL QUANTITIES OF LONG-STAPLE COTTON MIGHT BE NEEDED?

7. RE RAW MATERIALS, I COULD MAKE NO COMMITMENT BUT HE COULD BE SURE THAT WE WOULD TRY TO BE AS HELPFUL AS CIRCUMSTANCES PERMIT. I WOULD AWAIT LIST THAT VP AND HIS COMMITTEE ARE DEVELOPING, AFTER WHICH INTERESTED USG AGENCIES COULD STUDY MATTER AND COULD OFFER SUCH COUNSEL AS MIGHT BE APPROPRIATE. AS HE PERHAPS KNEW, WE ARE ALREADY PROVIDING SOME COKING COAL UNDER CIP.

8. RE HELWAN STEEL PLAN AND ALEXANDRIA SHIPYARD, I SUGGESTED THAT GOE SHOULD IN FIRST INSTANCE ASK JAPANESE AND/OR ITALIANS DIRECTLY IF THEY MIGHT BE WILLING AND ABLE TO ASSIST. PERHAPS, IF IT SUBSEQUENTLY SEEMED DESIRABLE OR NECESSARY, WE COULD SUPPORT EGYPTIAN REQUESTS AS WE HAD DONE IN SIMILAR SITUATIONS IN THE PAST. ULTIMATE DECISION WILL CLEARLY HAVE TO BE MADE BY JAPANESE AND/OR ITALIANS. SADAT AGREED THIS IS BEST WAY TO PROCEED AND GAVE ORDERS THAT PRIMIN IS TO CALL IN JAPANESE AMBASSADOR AND RAISE MATTER WITH HIM.

9. COMMENT: AS OF NOW, SADAT'S "REQUEST" IS NO MORE THAN AN ALERT THAT HE MAY NEED OUR ASSISTANCE IF HIS CURRENT CONTROVERSY WITH THE SOVIETS RESULTS IN EFFECTIVE CURTAILMENT OF SOVIET AND EASTERN BLOC BILATERAL TRADE AGREEMENT. HE WAS GREATLY EXERCISED ABOUT THE AFFAIR, AS AGITATED AS I HAVE SEEN HIM, AND SEVERAL TIMES POUNDED
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THE TABLE TO EMPHASIZE HIS POINTS. AT TIMES VP MUBARAK HAD DIFFICULTY CALMING HIM. SADAT, AGAINST THE ADVICE OF SOME OF HIS COUNSELORS, SEEMS DETERMINED TO TRY TO CUT HIS REMAINING ECONOMIC LINKS WITH THE SOVIET UNION, COME WHAT MAY. UNFORTUNATELY FOR HIM, AS THINGS NOW STAND, HE NEEDS THE SOVIETS AND EASTERN BLOC MARKET IN ORDER TO DISPOSE OF GENERALLY LOW QUALITY EGYPTIA MANUFACTURES,

WHICH HE CANNOT SELL ELSEWHERE, AND AS A SOURCE FOR CERTAIN
RAW MATERIALS. HE CONCEPT SEEMS TO BE TO TRY TO FIND A
MARKET FOR THE ADDITIONAL 30,000 TONS OF LONG-STAPLE
COTTON IN WESTERN EUROPE AND JAPAN AND TO USE THE HARD
CURRENCY PROCEEDS TO BUY HIS RAW MATERIALS NEEDS (INCLU-
DING COKING COAL) FROM WESTERN EUROPE AND/OR THE UNITED
STATES. AS QAYSUNI HAD EARLIER INDICATED TO ME
(CAIRO 13662), EGYPTIANS MAY ALSOASK FOR MORE CIP
ASSISTANCE TO MEET THEIR RAW MATERIAL AND INTERMEDIATE
OODS REQUIREMENTS IF SOVIETS AND EAST EUROPEANS CURTAIL
THEIR EXPORTS TO EGYPT. WE WILL DOUBTLESS HEAR MORE ABOUT
THIS MATTER. EILTS UNQUOTE CHRISTOPHER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, COTTON, MARKETS, TECHNICAL ASSISTANCE, MEETINGS, CAT-B
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Aug-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE199089
Document Source: CORE
Document Unique ID: 00
Drafter: LFEISCHER
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: N770005-0212
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 2
Legacy Key: link1977/newtext/t19770839/aaaabhbc.tel
Line Count: 236
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a080fa56-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NODS
Original Classification: SECRET
Original Handling Restrictions: NODIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1533815
Secure: LOCK1
Status: NATIVE
Subject: MEETING WITH SADAT SUMMARY: SADAT RECOUNTS HIS CURRENT CONTRETEMPS WITH SOVIET, WHICH PROMPTED HIM STOP EXPORT OF THIRTY
TAGS: ETRD, EPAP, EAI, EG, UR, CZ, US, IT, (SADAT, ANWAR)
To: SECRETARY WHITE HOUSE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a080fa56-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009